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**COMPTEL** COMPETITIVE TELECOMMUNICATIONS ASSOCIATION

**Genevieve Morelli**
Executive Vice President
& General Counsel

ORIGINAL

September 22, 1997

EX PARTE OR LATE FILED

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M St., N.W.
Room 222
Washington, D.C. 20554

**RECEIVED**

SEP 22 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket No. 96-262
<u>Ex Parte Communication</u>

Dear Mr. Caton:

On September 19, 1997, Genevieve Morelli, Joseph Gillan, Carol Ann Bischoff and Robert Aamoth, representing the Competitive Telecommunications Association ("CompTel"), met with Jim Casserly of Commissioner Ness's Office and Richard Metzger, Jim Schlichting and Glenn Reynolds of the Common Carrier Bureau to discuss the issues raised in CompTel's petition for expedited reconsideration in the above-captioned proceeding. The attached written document was used during the meeting.

Please address any questions concerning this letter to the undersigned.

Sincerely,

Genevieve Morelli

Genevieve Morelli

cc: Jim Casserly
Jim Schlichting
Richard Metzger
Glenn Reynolds

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List ABCDE

**CompTel**

**Access Reform Reconsideration**

**I. The prescribed increases in tandem-switched transport rates are contrary to the Commission's economic pricing and non-discrimination principles.**

A. The goal of economic, cost-based, tandem-transport prices is within reach. Existing rate levels are reasonably close to cost-based levels. Retaining existing tandem-switched transport rates would only extend the Commission mandated phase-out of the TIC by an average of 6 months.

B. The prescribed increases in tandem-switched transport rates will move these rates *farther* from economically efficient levels.

C. Tandem-switched transport and dedicated transport are competitively significant because the choice of transport option is dependent upon traffic volume.

1. Unjustified increases in tandem-switched transport rates discriminate between carriers based on size, thereby distorting interexchange competition.

2. Inflated tandem-switched transport rates discourage competition in rural areas because this is the transport option used to reach smaller markets. The FCC may need to waive the geographic averaging requirements of the Act.

D. The prescribed tandem switching rates will distort incentives for network configuration, encouraging a proliferation of under-utilized dedicated facilities.

E. The basic framework of the access reform order is to rely, in the first instance, on *market-forces* to move access rates to cost. The approach applied singularly to tandem-switched transport rates, however, favors regulatory prescription -- a prescription which moves rates *farther* from their economic cost.

F. The partitioned rate structure requires that interexchange carriers separately purchase dedicated circuits to reach remote, multiple tandems, significantly increasing the cost of tandem-switched transport. Dedicated transport users are permitted to purchase transport on a airline-mileage basis, even where routings are identical.

## II. The imposition of a PICC on multi-line business customers is unjustified, discriminatory, and competitively prejudicial.

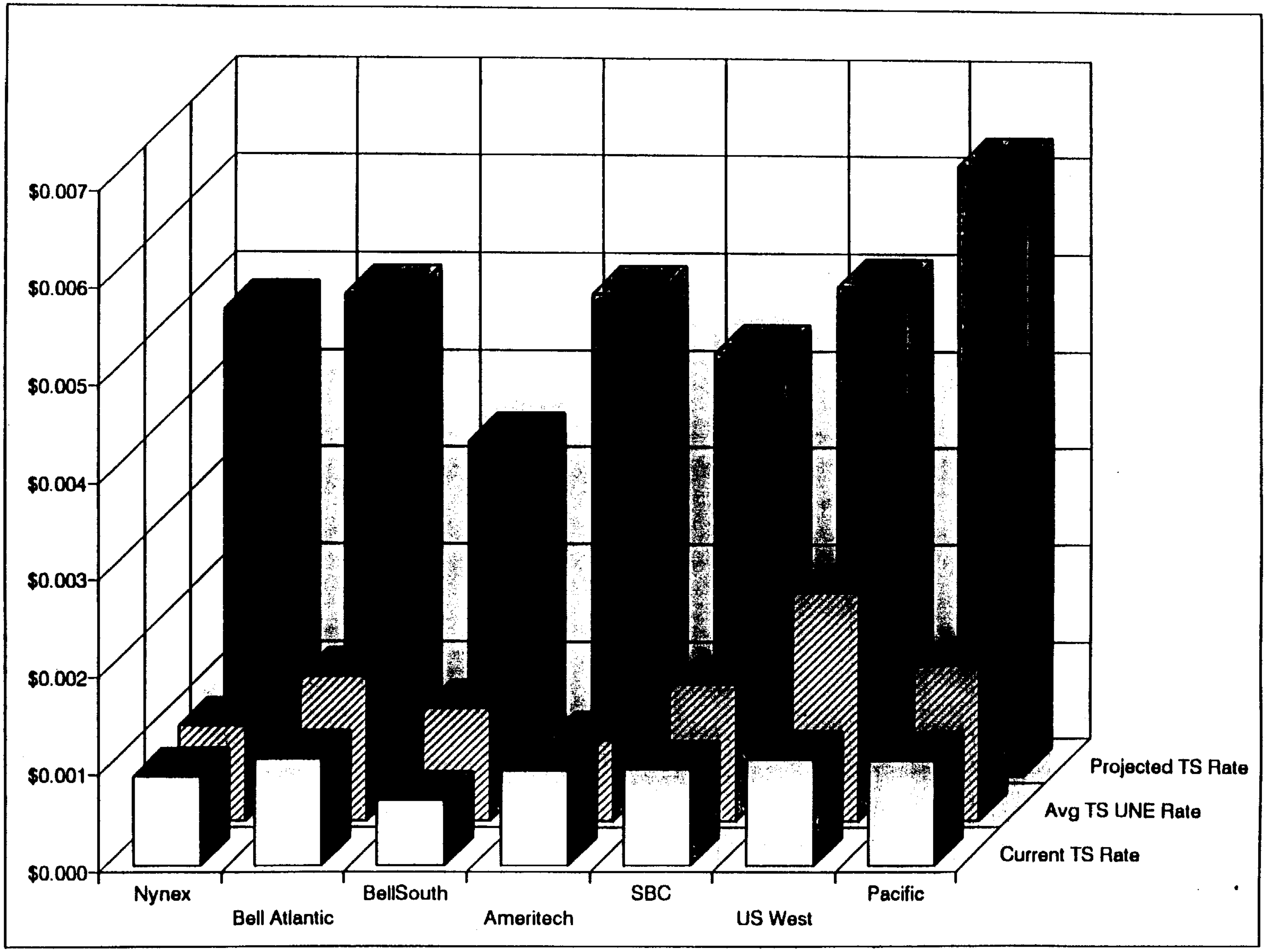
A. There is no cost-justification to impose a $2.75 per line PICC on multi-line business subscribers.

B. Imposing a PICC on multi-line business customers *creates* a new form of implicit cross-subsidization to *replace* the implicit cross-subsidization that the Commission sought to eliminate in accordance with the Act.

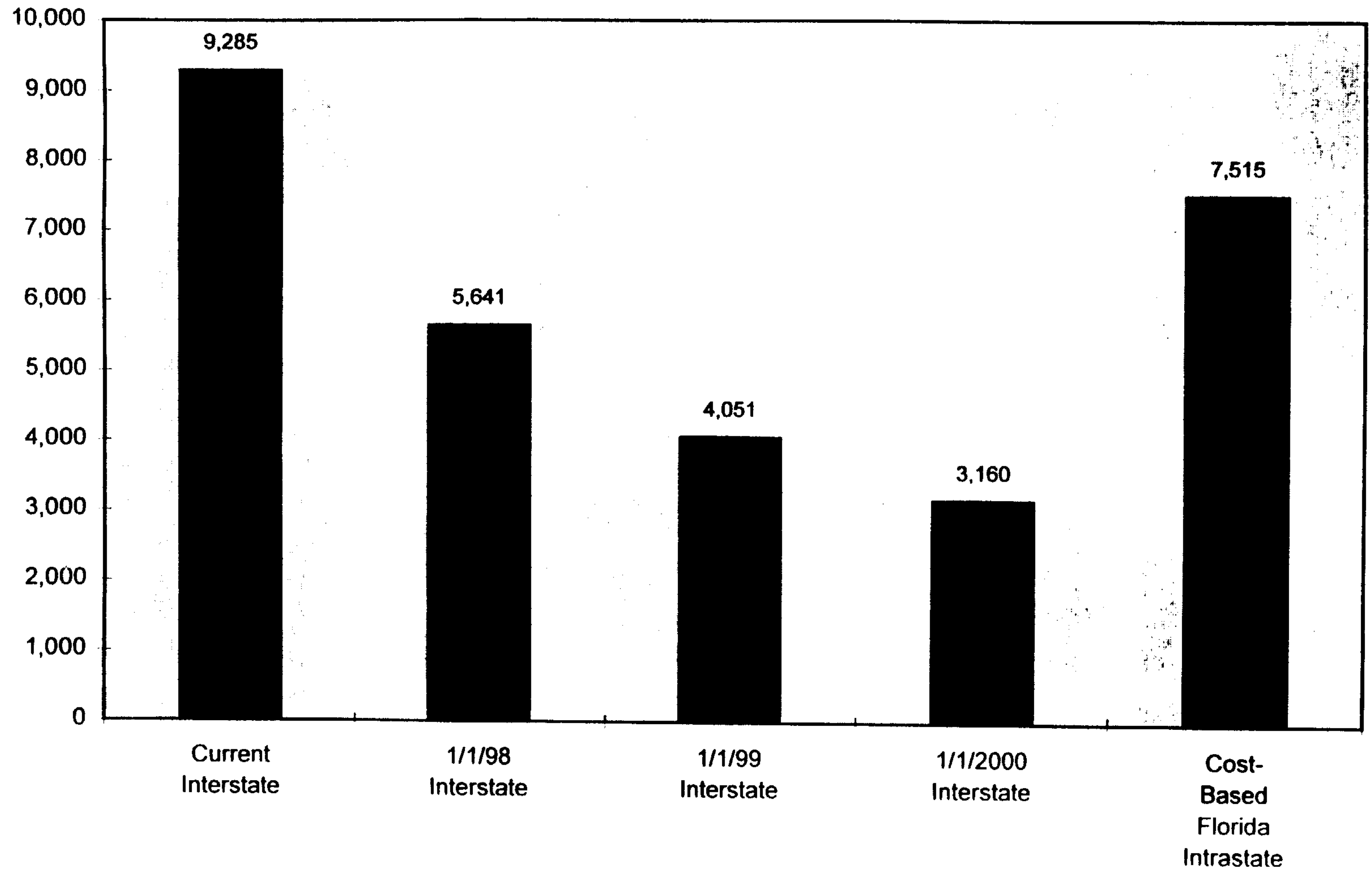
C. The multi-line PICC has a dramatic impact on the access costs of smaller interexchange carriers that specialize in serving smaller business customers. Any delay in the market imposing these higher charges directly on multi-line businesses will irreparably harm interexchange competition, compounding the difficulty that small carriers are experiencing entering the local market.

D. CompTel recommends simplifying the transition by implementing direct reductions in the usage subsidy, without first shifting the subsidy to smaller, multi-line business customers.

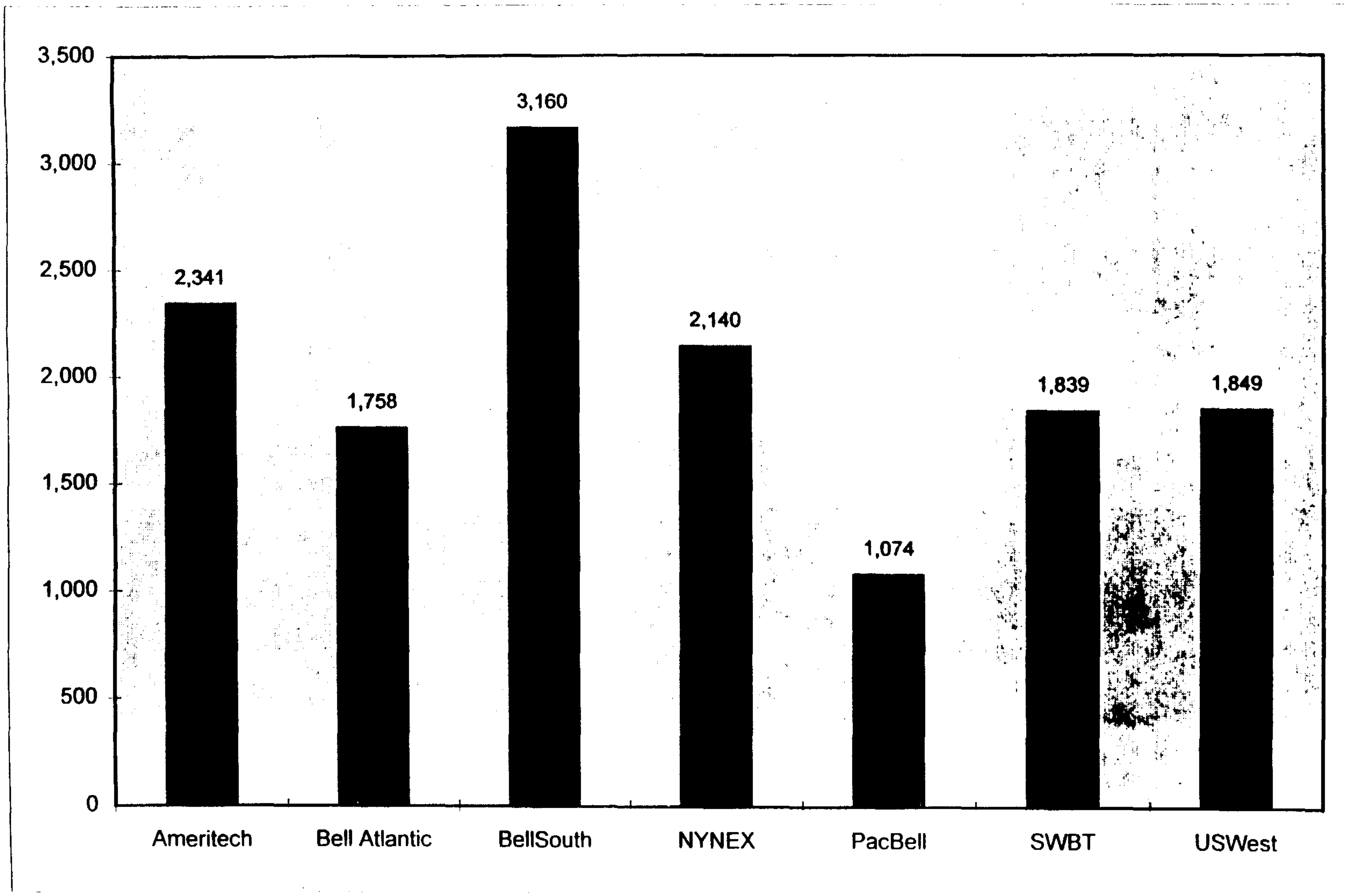
# Table I: Comparing Interstate Tandem Switching Charges to their Cost-Based UNE Equivalent



## Bellsouth Crossovers from Tandem Switched Transport to DS1 Direct Trunked Transport
## Expressed in Minutes per Month per DS0



## RBOC Interstate Crossovers from Tandem Switched Transport to DS1 Direct Trunked Transport
## 1/1/2000 Rates Expressed in Minutes per Month per DS0



**Percentage Change in Company's Interstate Switched Access Cost Due to Introduction of FCC's New Presubscribed Interexchange Carrier Charges (PICCs) and Reduction of Per Minute Charges**

**Grouped by Member Companies' Annual Revenues**

| CompTel Member | Scenario 1* | Scenario 2* |
|---|---|---|
| | Under $25 Million | |
| Company A | 499.5% | 474.2% |
| Company B | 188.4% | 151.8% |
| Company C | 156.4% | 130.9% |
| Company D | 99.7% | 93.0% |
| Company E | 92.8% | 33.4% |
| Company F | 89.7% | 66.8% |
| Company G | 61.3% | 46.1% |
| | Between $25 Million and $50 Million | |
| Company H | 14.5% | -2.7% |
| Company I | 14.4% | 12.8% |
| | Over $500 Million | |
| Company J | -2.1% | -2.1% |
| Company K | -6.8% | -6.8% |

* Scenario 1 - 0% pass-through of decrease in terminating ILEC access cost by underlying off-net carrier.
** Scenario 2 - 100% pass-through of decrease in terminating ILEC access cost by underlying off-net carrier.

Methodology:
The PICC impact analysis isolates the effect of the Introduction of the PICC and the corresponding decrease in traffic sensitive rates. In this way, the analysis demonstrates the relative effect that the PICC has on different carriers, and hence on their customers.

First the ILEC revenues generated by the PICCs, as priced according to the Commission's rules, are calculated. These revenues are then removed from the ILEC switched access revenue requirement. New originating and terminating traffic sensitive rates are then set to recover the remaining revenue requirement. The relationship between the new originating and terminating rates is set to exhibit the same percentage asymmetry as it would have under the Commission's complete rules, if the effect of the PICC were not isolated. This PICC analysis therefore excludes by design any rate level effects of Price Cap Index changes or reallocation of revenue recovery to increased Subscriber Line Charges.

The percentage change in a company's interstate switched access cost is defined as its projected ILEC per-minute charges plus its projected PICC charges, minus its current ILEC per-minute charges, plus the decrease in its off-net terminating access costs (if any) flowed through by its underlying off-net carrier, divided by its current ILEC per-minute charges.